

Message Text

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PAGE 01 EC BRU 06974 011724Z

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 OIC-02 /098 W

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R 011617Z AUG 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9410

INFO ALL EC CAPITALS 982

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E.O. 11652: N/A

TAGS: EFIN, ENRG, EEC

SUBJECT: INDEXATION OF OIL PRICES

REFS: A. STATE 175861

B. EC BRUSSELS 6768

C. EC A-203

1. MISSION OFFICERS DELIVERED COPIES OF THE DRAFT IEA POSITION PAPER ON INDEXATION OF OIL PRICES (REFTEL A) TO EC COMMISSION OFFICIALS. FINANCIAL OFFICIALS, WITH WHOM WE DISCUSSED THE PAPER, HAD RESERVATIONS ABOUT SOME SECTIONS OF THE PAPER, BUT THEY WERE LARGELY OF A PRESENTATIONAL NATURE. THESE OFFICIALS WHOLEHEARTEDLY SUPPORTED THE THRUST OF THE PAPER. THE COMMISSION IS NOW PREPARING ITS COMMENTS ON THE PAPER AND WILL SUBMIT THEM DIRECTLY TO THE IEA SECRETARIAT.

2. AMONG THEIR INITIAL COMMENTS, COMMISSION OFFICIALS QUESTIONED THE USEFULNESS OF INCLUDING PARA O, REF A,
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PAGE 02 EC BRU 06974 011724Z

REGARDING THE POSSIBILITY OF LINKING THE INDEXATION OF

OIL PRICES WITH A SUBSTANTIAL OIL PRICE REDUCTION. THE PROPOSAL TENDS TO UNDERCUT THE PAPER'S POINTS THAT INDEXATION OF COMMODITY PRICES IS OF ITSELF UNDESIRABLE. IT ALSO INSERTS A POLITICAL ISSUE INTO WHAT IS ESSENTIALLY AN OBJECTIVE ANALYSIS OF THE QUESTION OF INDEXATION OF COMMODITY PRICES.

3. THE EC COMMISSION IS PREPARING ITS OWN STUDY OF PRICE INDEXATION WHICH IT PLANS TO SUBMIT TO THE FINANCE COUNCIL IN THE FALL. THE EC ECONOMIC POLICY COMMITTEE RECENTLY REVIEWED THE COMMISSION'S DRAFT STUDY ON COMMODITY PRICE INDEXATION. THIS DRAFT, WHICH IS A REVISED VERSION OF THE PAPER CONTAINED IN REF C, MAKES THE FOLLOWING CONCLUSION: "A PRICE INDEXATION SYSTEM LIMITED TO A SMALL NUMBER OF RAW MATERIALS IS POSSIBLE, BUT OWING TO THE DISADVANTAGES INVOLVED, NOT DESIRABLE." (COPIES OF THIS DRAFT HAVE BEEN SENT TO INTERESTED WASHINGTON AGENCIES, INCLUDING RPE/CLARK).

4. COMMISSION OFFICIALS REPORT THAT THE COMMITTEE HAD A NUMBER OF RESERVATIONS OVER THE COMMISSION DRAFT, MAINLY BECAUSE MEMBER STATE REPRESENTATIVES DID NOT WANT TO COMMIT THEMSELVES ON A POSITION PRIOR TO THE PREPCON MEETING. AS A RESULT, A WORKING GROUP HAS BEEN FORMED TO REVISE THE DRAFT PAPER AND THE FULL COMMITTEE WILL TAKE THIS ISSUE UP AGAIN IN SEPTEMBER. IN ADDITION, THE COMMISSION IS PREPARING A PAPER ON THE INDEXATION OF FINANCIAL ASSETS WHICH ALSO TAKES A POSITION AGAINST INDEXATION. THE EC MONETARY COMMITTEE WILL CONSIDER THIS PAPER IN SEPTEMBER. MORRIS

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